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ABSTRACT

All school districts are affected by the stagnant economy, the growing needs of the public sector, the increased burden of transfer payments, and the limited growth of public revenues. Retrenchment is common to all school districts, but it may be more severe in affluent districts. By 1969-70, suburban school systems were the clear-cut expenditure leaders, with many spending at twice the median expenditure level for their state. However, events of the early 1970s appear to be placing these districts on the same time line that earlier saw the rise and demise of large cities as the expenditure leaders. In part, this is due to post-Serrano reforms that restrict the expenditures of the most affluent school districts. In addition to ceilings on local tax rates, the federal fund slowdown, the higher charges of intermediate districts, and changes in state aid formulas, special economic circumstances affecting affluent districts threaten their leadership role. Affluent districts typically have high-priced residences; coincidence of a general economic downturn with a local decline in housing values can result in a rapid drop in the expenditure level of affluent school systems. Whether this loss affects only the affluent, or the entire school-age population, only time will tell. (Author/JG)

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Problems of Affluent School Districts

by Eugene P. McLoone

Several years ago for the National Association of School Boards, I developed several types of problem school districts within a state-aid context. One problem type was the older central cities of the Northeastern and Midwestern United States, an area roughly bounded by Boston on the East and North, Minneapolis-St. Paul on the West and North and Baltimore, Cincinnati, and St. Louis on the South. Another problem type was poor rural districts. Still another problem type was less affluent suburban bedroom communities around central cities. As Cubberly could point to the educational program leadership of the large cities in the early 1900's and the need of state-aid to bring other school districts to the expenditure level of the large cities, I could point in the early 1960's to the educational leadership and expenditure level of what I called "Gold Coast" suburban communities. In the 1962 Census of Governments, there were some 500-600 of these school systems. Many of them were new arrivals In the 1957 Census of Governments, many of these districts lagged behind their central city in expenditures. In 1957, many of these "Gold Coast" systems had not as yet completed their building program. Many of these systems were constructing the foundation for their later leadership. By 1962, these "Gold Coast" communities were expenditure leaders.

These "Gold Coast" communities are one possible definition of affluent school systems. These school systems are more likely to be located around the central cities of Boston, Chicago, Los Angeles, New York, Philadelphia, and San Francisco but are not limited to these metropolitan areas. There are "Gold Coast" school systems located in most states and even though less likely in states with school systems organized on a county unit basis, one cannot overlook Montgomery County, Maryland, nor DeKalb County, Georgia. Most but not all affluent school systems are wealthy bedroom communities balkanized

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from their neighboring suburban school systems. Most but not all have a per capita income twice the average of the Nation. Many but not all have a property tax base on a per pupil basis twice the statewide average. A few of the affluent school systems have the advantage of a large retail center, a power plant, or a large industrial base in relation to their child population. Still fewer have a high ratio of private school attendance to the total school-age population.

For my purposes, Table K-2 of NCES 76-157, which gives the median statewide current expenditure per pupil and a distribution by school districts of current expenditure per pupil, will serve to identify affluent school districts for 1973-74. Generally speaking, school districts with an expenditure above $1,500 per pupil or a school system spending at or above two times the statewide average expenditure. This definition yields almost 10 percent of the school systems in the United States. However, from this group one must remove school systems in states like Wyoming where the high expenditure arises because of sparsity of population or states like Alaska where the high expenditure arises because of the high cost of living there in comparison with the rest of the United States. Alternatively, one could choose the school systems that are affluent by taking those that spent above the 90th percentile in a distribution of classroom unit expenditures for the Nation or for a state in a publication such as Profiles in School Support. Or one might choose to select those school systems where the affluent live, that is, the residences of the 7 percent of United States households which had between $25,000 and $50,000 income in 1975 or an income that was roughly double the nationwide average. Any of these definitions will yield approximately the same set of school systems. There is overlap in the distributions. Ideally one would only look at school systems that meet all of the above criteria, i.e., school systems where the affluent live, and which have a current expenditure per pupil

at least twice the state average and which fall above the 90th percentile in expenditures per classroom unit for the Nation. Generally, these will be suburban bedroom communities near a large central city.

These communities are faced with problems in 1975-76 which are unique to affluent school systems while sharing problems common to all school systems. The social, political and economic climate affects all school systems. Certain educational problems are the result of the present environment. Certain financial problems arise from the general state of the economy and from the state of the public sector.

Can the Economy Afford the Present Level of Educational Spending?

When the consumer price index is rising at a rate close to 10 percent per year, unemployment is above 7.5 percent, housing construction is at the lowest level in 30 years, manufacturing plants are operating at 70 to 80 percent of capacity, the real income of the working population before taxes but after adjusting for inflation is declining, both public bodies like New York City and private companies like W. T. Grant are going bankrupt, many persons are asking can the economy afford the existing level of public spending at local, state or Federal levels?

The economic truth that if we want more of one good, we must be satisfied with less of another in a growing economy meant the choice of where we cared to spend the funds of the new slice of a growing economic pie. As a Nation, state, community, or an individual, the choice was what new good we wanted in addition to all we already had. In the present circumstance of a stagnating economy, if we want the same amount of education as previously, we must sacrifice some other good we previously enjoyed. Until the economic pie again begins to increase, standing still in resources going to schools means less and less of some previously cherished good. The economy can afford the old

standard only if education is valued more than some other good. The choice, moreover, is not one for a brief period until the recession or stagnation has passed but a much more long-term choice.

In all previous recessions of the period since 1945, the National Government steadfastly pursued a full employment policy. The national goal was an unemployment level of 3-4 percent and stable prices with a 3-5 percent per year increase. We have survived the longest and possibly deepest post-war recession in 1973-74 but recovery is not yet assured and the national goal now as projected in the President's Council of Economic Advisers Report is 7-8 percent unemployment and 6-8 percent year price rise. Economic forecasts for the next several years are not optimistic. One reason for the lack of optimism is that the economy is probably at the end of a long-swing in economic activity.

Long-swings in the economy are not new. They have occurred with frequency in the 18th, 19th, and 20th century. Long-swings are new to most of the present generation as the last one was from 1921 to 1933. Long-swings are typically characterized by an industrial phase and a speculative phase and typically end in a period of stagnation or a severe recession. Recovery of economic activity to potential often takes five to six years. Recovery from the 1921-1933 long-swing only came with the onset of World War II. The industrial phase of the present long-swing lasted from 1958 or 1961 to 1965. The speculative phase ended in 1973. The aftermath of a speculative phase is the lack of business confidence, indecision, and a long period of recovery.

Business sees little need to invest in new plant and equipment as existing plant and equipment is not operating at full capacity. Some innovation be it the discovery of America in 1492 or the electronics and computer industry of the 1960's is needed to spark business investment or consumer demand. History teaches us that such an innovation will come to spark business investment,

consumer demand, and the economy. The question is when? Until it comes, both personal and business decisions are marked with anxiety and economic performance with pessimism. Normal expansionary fiscal policy of the Federal Government fails as private initiative does not respond. Witness the effect of the 1975 tax cut.

The exact reasons for long-swings are not known. Among the causes common to long-swings in economic activity is the change in birth rate of the population, change in construction activity with a period of overbuilding followed by almost no construction activity, change in the demand for agricultural products with the United States serving as the residual supplier to the world as weather variously affects food production. We are witnessing all these usual phenomenon. Furthermore, there are several new elements. Almost everyone knows the effect that $13 a barrel oil has had on the economy and on prices. The large scale sale of wheat to the Russians has affected domestic food prices and production. The end of United States agricultural surplus means that domestic food prices are now affected by world demand. The possible coinciding of an economic long-swing in the German and English economies at the same time as that of the United States may hinder recovery as the long-swing affects more than one country. The net result has been painful readjustments that everyone--individuals, governments, and businesses--must make as real income declines and attention turns to ways to reduce costs.

The economy can afford what every level of resource use we wish to provide education. However, it can do so only at the sacrifice of some other good. In a time of declining real income, history does not indicate that the public sector prospers. Education is not likely to do better than hold its own in the public sector. The importance of the economic forces for school systems is that the phenomenon, while temporary, may last half of the time a child is in school.

Can the Public Sector Afford the Present Level of Educational Spending?

The public sector of the economy has enjoyed the long period of economic growth of the post-war period. State and local government grew faster than gross national product through the 1950's and 1960's but only the state government since 1970. Education often grew faster than state and local government as schools expanded to meet the need of population growth. Nonetheless, school system revenue and local government revenue generally, as a percentage of gross national product, has remained stable during the 1970's. State government revenue to schools has grown slightly more than gross national product during the 1970's. State government revenue has expanded faster than the rate of growth in gross national product since 1969.

Among the reasons for the relatively slow growth in state and local government is budgeting under a "known revenue constraint." Government expenditures are tailored to the growth that will occur in revenue from increased economic activity. No new taxes are, thus, necessary. For the later part of the 1960's, only 40 percent of increased state revenue came from new enactments. The remaining 60 percent of increased revenue came from growth in economic activity. Federal revenue sharing was looked upon as a new source of funds for states and localities. Revenue sharing did provide additional funds but at the expense of growth in other Federal aids. Faced with almost fixed revenue as economic activity slowed and Federal revenue growth slowed, states and localities only did not expand but looked for ways to reduce costs as prices increased. The reduction in costs are usually those not immediately reflected in service level declines as the reductions are made in areas such as deferring of maintenance.

The long-term picture of the state and local public sector can be best seen in the salary level. Government salaries, although increase approximately with those in the private sector in the long-run, lag behind the price and productivity changes of the private sector. In times of relatively stable prices, public sector salaries make notable real gains in income. In times of rapid inflation, public sector salaries fall behind those of the private economy and public employees suffer real losses for a time. Later the gap is closed and public and private salaries are competitive. Increased taxes to meet the wage and salary demands and other price changes are usually postponed as long as a government can. The period of adjustment may take a decade or two.

Teachers' salaries, responding to a short supply of teachers, an almost stable price level, and revenue growth from economic activity and tax increases, increased in real income in the decade ending in 1965-66. Average salary of instructional staff equalled 2.5 times per capita personal income in that year. It was not until 1961 that educational salaries reestablished their 1929 relationship to the private economy. The high rate of inflation since 1965 and the declining demand has seen decline of the ratio of average salary of instructional staff to per capita personal income since 1965-66. Not only have school employees suffered a decline in real income but also other parts of school budgets have experienced a real decline. The price level changes for educational materials often have exceeded price changes of consumer price index or price deflator for gross national product and school revenue has just maintained pace with gross national product. The tax increases needed to maintain the same real level of resources for schools did not materialize. Federal revenue did not maintain their previous share of school dollar. Yet the share of gross national product taken by the public sector increased mainly because the Federal Government's share of gross national product increased.

As a share of gross national product, Federal defense spending declined and Federal domestic spending increased. The largest increase in Federal domestic spending was for transfer payments and not the purchase of goods and services. In 1974, when the real income of workers declined by 4 percent before taxes, social security and welfare recipients lost no ground to inflation because of automatic cost-of-living increases and may have made real income gains. The growing importance of transfer payments, accounts for the major growth in the public sector. The growth comes from both a larger population and an automatic price change in level of benefits. The five-year increase in transfer payments from 1969 to 1974 approximately equals local revenue for schools. The working-nonworking gap is, thus, narrowing. State and local public sector employees, whose salaries approximately equalled average private sector wages in early 1970 for the first time since 1929, are more likely than private sector employees to be affected by further decreases in earnings. Public sectors like education with a high ratio of personnel to other expenditures are more likely to feel the affects than other areas. New growth areas such as public safety and public mass transportation as they rely on local revenue which is mainly from the property tax further will constrain the increases in revenues that can go to schools.

In brief, the public sector is growing but in areas other than education. The growth areas of the public sector are the likely claimants for increased revenues from existing taxes and from new tax enactments. The growth of transfer payments preempts new Federal initiatives to schools or to all state and local governments. Workers with a decline in real income before taxes are less willing to increase taxes than previously. The public sector as a percentage of gross national product would increase if gross national product were growing but the percentage increases more because actual gross national product is 15-20 percent below potential gross national product. Countercyclical revenue

sharing to guarantee states and localities the revenue they would collect at potential gross national product is desirable but not likely with Federal revenue problems. The public sector at the Federal and state levels is not likely to provide more revenue for schools. The local property tax has the burden of increased public mass transportation and public safety expenditures. Schools are not likely to fair as well in getting the same share of the public dollar as in the past.

Common Educational Problems

All school districts are affected by the stagnate economy, the growing new needs of the public sector, the increased burden of transfer payments, and the limited growth of public revenues. Fat in school budgets that can grow in periods of prosperity are first used in period of decline. Fiscal lag works for a time but not later. Declining school-age population has lead to a need to close schools, layoff personnel, and decreased general public support. lack of growth in school population means almost no new entrants to teaching staff and an aging staff with more teachers toward top of salary scale. Legal requirements for racial balance and special educational programs such as those for handicapped and bilingual students have increased other than instructional costs. Pressure for accountability and prudential control of funds have increased operating costs. The tight labor market has reduced attrition below normal levels so that the same salary schedule has meant a larger increase in expenditures than previously. The pressures for limited growth in either housing or industry have reduced the growth of the tax base for new construction. Higher interest rates for home mortgages, sewer moratoriums, and need for environmental impact statements have reduced growth in the local property tax base. The pupil-classroom teacher ratio has increased to reduce costs. Extracurricular programs have been eliminated. Attrition has been used to

reduce staff and in some cases, actual layoffs have been done. Summer employment of teachers has been reduced if not eliminated. Administrative personnel have been used instead of substitutes for absent classroom teachers with the effect of reducing both the out-of-pocket expenditures and the actual administrative services. Retrenchment is common to all school districts but it may be more severe in affluent districts. The problems of the affluent school districts arise with the general background of retrenchment brought about by the stagnating economy and restricted public revenues.

Unique Problems of Affluent School Districts

From 1900 to 1960, one could point to New York City as the expenditure leader and the model school system for educational programs. State aid plans were predicated on providing less-able school systems with resources to meet the New York City expenditure level, and thereby educational program excellence. Some might quibbled with 1960 as the year of demise for New York and other large cities. To them, the ending year might be more appropriately 1940 or 1950. For my purposes, the exact year of the demise of large cities is not too important. Compared to school districts of the suburban ring, large cities generally still enjoyed an advantage until 1957. It was not until the 1962 Census of Governments that suburban school systems generally became the expenditure leaders. In the 1959-60 profiles of school system expenditures, suburban school systems had not clearly replaced large cities as the expenditure leaders. By 1969-70, suburban school systems were not only the clear-cut expenditure leaders but many of them were spending at levels beyond twice the state median expenditure. The most striking change in the 1969-70 expenditure profiles from the earlier studies going back to 1929-30 is the extent to which the expenditure leaders spend beyond other school systems in the state. From 1959-60 to 1969-70, school systems below the median state expenditure made real gains toward the median. State funds in the period from 1959-60 to 1969-70

seemed to go mainly to districts below state median expenditures. At the same tire, the group of affluent school districts spending above the 75th percentile moved further ahead of the state median than previously. Now, I see the events of the early 1970's as placing these school districts on the same time line that saw the rise and the demise of large cities as the expenditure leaders. The main difference is the length of the time period. Large cities maintained ascendency for 50 years and the affluent suburbs seem destined to reign for less than a decade.

The post-Serrano reform sought to restrict leeway expenditures of the most affluent school systems. Wealthy school systems were faced with ceilings on tax rates, which sometimes could be exceeded by a vote in states like Minnesota or which could not be exceeded in states like Illinois, or which required in proposals payments to the state of all the excess or a special tax on the excess. These ceilings on tax rates became more restrictive than intended because of economic events and because of changes in property tax base. Property tax reform which removed part of tax base is one such restriction. Homestead exemptions and exemptions for senior citizens is another. The net effect of these restrictions is the limitation of local funds for schools.

Wealthy suburban school systems, since generally they are small in enrollment size, are often part of an intermediate unit. These intermediate units provide above average district expenditure programs. The charge to the affluent districts when based on wealth of partners means a drain on limited resources. The drain has increased as special Federal funds often used by intermediate districts to begin programs have not maintained pace with costs rising due to inflation. The same problem has arisen when special Federal projects were operated directly by the affluent districts.

Not only has the ceiling on local tax rates, the Federal fund slowdown, the higher charges of intermediate districts, and the change in state aid restricted funds to maintain previous programs but also special circumstances of the economy affecting affluent school districts threaten their leadership role. Studies show that affluent households tend to value schools and public safety. In more technical terms, the income elasticity for housing expenditure is high for better schools and more public protection. Affluent school districts are typically ones with high-priced residences. Persons move into these communities for the 12 years that their children are in school. When their children graduate from high school, the parents can return to a central city area such as Water Tower in Chicago or can move to less housing in an apartment elsewhere. The major effect of these moves is a differentiation of the population by age among communities.

Central cities become the area where young adults and the aged live. Suburban communities become the center for adults with school-age children. The affluent suburbs become the residence for those parents particularly valuing education. Part of the price difference among homes reflects the level of educational expenditures. Homebuyers in these areas pay a premium in price for the educational expenditures capitalized in housing values. The buyer will recapture this cost at a later resale. The actual burden of school taxes may be equal to, less than, or greater than the taxes paid during term of living in the suburb. The actual burden depends on the degree to which educational expenditures are capitalized in housing values. A cap of school spending may mean not only lower school spending but also a loss in capitalized housing values. Present homeowners may, thus, pay more than previous owners for schooling. Furthermore, the end of the money makers for this group, as the speculative phase of the economy comes to a close, means a general feeling of

less ability to spend. The coinciding of the economic downturn with a possible local area downturn in housing values can result in a rapid downturn in the expenditure level of affluent school systems. The major question which arises is whether the loss is that of the affluent and their school systems alone, or is the loss one that affects the total school-age population. I have no easy answer to that question today. Time will tell.

I do have some concluding remarks with regard to state-aid plan changes. There is little need to document the problems of the existing state-aid plans. In almost all comparisons of the existing state-aid plans with a theoretical plan, the existing plan will come out a second best. If the theoretical plan as adopted were compared, its advantages might not be apparent. With regard to the post-Serrano reform and its theoretical models, the following analysis seem appropriate before changing from previous state-aid plans. The income and price elasticity of the demand for education under present method of financing should be determined. The degree to which educational expenditures are capitalized in housing values deserves attention. The differences among school systems in age composition which were supported by present financing should be examined to determine affect changes in financing may have on life-cycle housing patterns. Projected populations and projected economic conditions should be done to forecast likely results if there are vast changes from past trend especially when a drastic change in methods of financing is proposed. Examination of these data would lead to an answer to the question I proposed above: Is there a loss to all school systems from the present problems of the affluent districts? If the answer is yes, are there actions we can take to alleviate or eliminate the problem? At least, we will not exacerbate the problem by actions to solve others. The road to reform may not be as direct or as easy as thought. The costs for travelling the road may be greater than thought. Without educational leaders, there may be no model to raise all above

mediocrity. A broader look at the total educational scene rather than a focus on the problems of central cities, the problems of less-wealthy school systems, and the problems of affluent school systems may be required.